

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**

**ROSS & COMPANY, PLLC
Certified Public Accountants**

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY FISCAL COURT

June 30, 2009

Ross & Company, PLLC has completed the audit of the Russell County Fiscal Court for fiscal year ended June 30, 2009.

We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky.

Financial Condition:

The Fiscal Court had net assets of \$7,279,355 as of June 30, 2009. The Fiscal Court had unrestricted net assets of \$4,488,582 in its governmental activities as of June 30, 2009, with total net assets of \$7,277,168. In its business-type activities, total net cash and cash equivalents were \$2,187 with total net assets of \$2,187. The Fiscal Court's discretely presented component unit had net assets of \$195,037 as of December 31, 2008. The discretely presented component unit had net cash and cash equivalents of \$47,450. Total debt principal as of June 30, 2009, was \$4,849,498 with \$4,549,338 due within the next year.

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathon Miller, Secretary
Finance and Administration Cabinet
The Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Russell County Tourist Commission, a discretely presented component unit, which represents 100 percent, respectively of the assets and revenues of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Tourist Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of other auditors provides a reasonable basis for our opinions.

As described in Note 1, Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of June 30, 2009, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

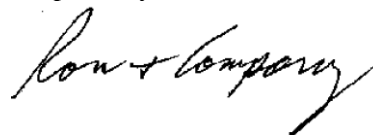
To the People of Kentucky
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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2010 on our consideration of Russell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

March 18, 2010

RUSSELL COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

Mickey Garner	County Judge/Executive
Greg Popplewell	Magistrate
Steve Bledsoe	Magistrate
Ronald Johnson	Magistrate
Jimmy McQueary	Magistrate
Gary Robertson	Magistrate

Other Elected Officials:

Mark McGaha	County Attorney
Darrell McQueary	Jailer
Lisha Popplewell	County Clerk
Tony Kerr	Circuit Court Clerk
Larry Bennett	Sheriff
Rodney Owens	Property Valuation Administrator
Larry Skaggs	Coroner

Appointed Personnel:

Barbara Sharpe	County Treasurer
Angie Neat	Tax Administrator
Leslie Barger	Administrative Assistant
Jackie Mann	Road Supervisor

RUSSELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

RUSSELL COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Tourist Commission December 31, 2008
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 4,488,582	\$ 2,187	\$ 4,490,769	\$ 47,450
Due From Russell County Fiscal Court				1,000
Total Current Assets	<u>4,488,582</u>	<u>2,187</u>	<u>4,490,769</u>	<u>48,450</u>
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land	547,500		547,500	30,240
Construction In Progress	959,089		959,089	
Buildings	1,872,300		1,872,300	116,347
Equipment	343,843		343,843	
Vehicles	404,633		404,633	
Infrastructure Assets - Net of Depreciation	<u>3,510,719</u>		<u>3,510,719</u>	
Total Noncurrent Assets	<u>7,638,084</u>		<u>7,638,084</u>	<u>146,587</u>
Total Assets	<u>12,126,666</u>	<u>2,187</u>	<u>12,128,853</u>	<u>195,037</u>
LIABILITIES				
Current Liabilities:				
Notes Payable	4,500,000		4,500,000	
Financing Obligations Payable	<u>49,338</u>		<u>49,338</u>	
Total Current Liabilities	<u>4,549,338</u>		<u>4,549,338</u>	
Noncurrent Liabilities:				
Bonds Payable				
Financing Obligations Payable	<u>300,160</u>		<u>300,160</u>	
Total Noncurrent Liabilities	<u>300,160</u>		<u>300,160</u>	
Total Liabilities	<u>4,849,498</u>		<u>4,849,498</u>	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	2,788,586		2,788,586	146,587
Unrestricted	<u>4,488,582</u>	<u>2,187</u>	<u>4,490,769</u>	<u>48,450</u>
Total Net Assets	<u>\$ 7,277,168</u>	<u>\$ 2,187</u>	<u>\$ 7,279,355</u>	<u>\$ 195,037</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,090,763	\$ 4,853	\$ 235,039	\$ 73,526
Protection to Persons and Property	432,956	7,844	106,341	44,111
General Health and Sanitation	215,997	36,025		
Social Services	158,853			
Recreation and Culture	114,217			
Roads	756,692	105	218,032	805,071
Airports	42,641	28,030		47,361
Interest on Financing Obligations	96,129			
Capital Projects	509,622			
Total Governmental Activities	3,417,870	76,857	559,412	970,069
Business-type Activities:				
Jail Canteen	15,334	15,329		
Total Business-type Activities	15,334	15,329		
Total Primary Government	\$ 3,433,204	\$ 92,186	\$ 559,412	\$ 970,069
Component Unit:				
Tourist Commission December 31, 2008	\$ 139,525	\$ 98,840	\$ 34,449	

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes

Excess Fees

Unrestricted Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			Component Unit
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Tourist Commission December 31, 2008
\$ (777,345)	\$	\$ (777,345)	\$
(274,660)		(274,660)	
(179,972)		(179,972)	
(158,853)		(158,853)	
(114,217)		(114,217)	
266,516		266,516	
32,750		32,750	
(96,129)		(96,129)	
(509,622)		(509,622)	
(1,811,532)		(1,811,532)	
	(5)	(5)	
	(5)	(5)	
(1,811,532)	(5)	(1,811,537)	
			(6,236)
451,959		451,959	
78,684		78,684	
96,806		96,806	
369,881		369,881	
557,423		557,423	
227,933		227,933	
40,615		40,615	609
170,045		170,045	
1,993,346		1,993,346	609
181,814	(5)	181,809	(5,627)
7,095,354	2,192	7,097,546	200,664
\$ 7,277,168	\$ 2,187	\$ 7,279,355	\$ 195,037

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

RUSSELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Public Properties Corporation Fund
ASSETS				
Cash and Cash Equivalents	\$ 431,193	\$ 507,040	\$ 13,130	\$ 3,454,690
Total Assets	<u>\$ 431,193</u>	<u>\$ 507,040</u>	<u>\$ 13,130</u>	<u>\$ 3,454,690</u>
FUND BALANCES				
Reserved for:				
Encumbrances	3,301	5,433	6,171	
Unreserved:				
General Fund	427,892			
Special Revenue Funds		501,607	6,959	
Debt Service Fund				3,454,690
Total Fund Balances	<u>431,193</u>	<u>507,040</u>	<u>13,130</u>	<u>3,454,690</u>
Total Liabilities and Fund Balances	<u>\$ 431,193</u>	<u>\$ 507,040</u>	<u>\$ 13,130</u>	<u>\$ 3,454,690</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Non-Major Funds	Total Governmental Funds
<u>\$ 82,529</u>	<u>\$ 4,488,582</u>
<u>\$ 82,529</u>	<u>\$ 4,488,582</u>
323	15,228
	427,892
82,206	590,772
	<u>3,454,690</u>
<u>82,529</u>	<u>4,488,582</u>
<u>\$ 82,529</u>	<u>\$ 4,488,582</u>

Reconciliation of the Balance Sheet - Governmental Funds To The Statement of Net Assets:

Total Fund Balances	\$ 4,488,582
Amounts Reported for Governmental Activities in the Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	10,204,009
Accumulated Depreciation	(2,565,925)
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	
Due Within One Year - Bonds, notes, and Other Principal Payments	(49,338)
Due In More Than One Year - Bonds, Notes, and Other Principal Payments	<u>(300,160)</u>
Net Assets Of Governmental Activities	<u>\$ 11,777,168</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,250,477	\$	\$
In Lieu Tax Payments	202,930		
Excess Fees	227,933		
Licenses and Permits	4,416		
Intergovernmental	202,023	1,015,387	109,156
Charges for Services		105	2,219
Miscellaneous	174,770	4,501	5,577
Interest	1,737	3,939	98
Total Revenues	<u>2,064,286</u>	<u>1,023,932</u>	<u>117,050</u>
EXPENDITURES			
General Government	623,805		
Protection to Persons and Property	82,052		528,569
General Health and Sanitation	210,635		
Social Services			
Recreation and Culture	14,276		
Roads		544,206	
Airports			
Debt Service	98,240	99,553	
Capital Projects	250,006		
Administration	357,748	105,171	72,377
Total Expenditures	<u>1,636,762</u>	<u>748,930</u>	<u>600,946</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>427,524</u>	<u>275,002</u>	<u>(483,896)</u>
Other Financing Sources (Uses)			
Financing Obligations Issued	186,143		
Transfers From Other Funds		100,000	500,000
Transfers To Other Funds	(606,992)		
Total Other Financing Sources (Uses)	<u>(420,849)</u>	<u>100,000</u>	<u>500,000</u>
Net Change in Fund Balances	6,675	375,002	16,104
Fund Balances - Beginning	<u>424,518</u>	<u>132,038</u>	<u>(2,974)</u>
Fund Balances - Ending	<u>\$ 431,193</u>	<u>\$ 507,040</u>	<u>\$ 13,130</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$ 101,346	\$ 1,351,823
		202,930
		227,933
		4,416
	209,099	1,535,665
	28,030	30,354
	21,100	205,948
34,302	539	40,615
<u>34,302</u>	<u>360,114</u>	<u>3,599,684</u>
	5,621	629,426
		610,621
		210,635
	158,853	158,853
	99,941	114,217
		544,206
	42,641	42,641
88,330		286,123
959,089	22,878	1,231,973
9,147		544,443
<u>1,056,566</u>	<u>329,934</u>	<u>4,373,138</u>
 (1,022,264)	 30,180	 (773,454)
		186,143
	6,992	606,992
		(606,992)
	<u>6,992</u>	<u>186,143</u>
(1,022,264)	37,172	(587,311)
<u>4,476,954</u>	<u>45,357</u>	<u>5,075,893</u>
<u>\$ 3,454,690</u>	<u>\$ 82,529</u>	<u>\$ 4,488,582</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

RUSSELL COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (587,311)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	1,151,481
Depreciation Expense	(382,217)
Disposal of Capital Assets	(3,990)

The Issuance of Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds. While Bond Principal Payments and Financing Obligations Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

These Transactions, However, Have No Effect on Net Assets.

KACO Financing Obligation Proceeds	(186,143)
KACO Financing Obligation Principal Payments	189,994

Change in Net Assets of Governmental Activities	<u><u>\$ 181,814</u></u>
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RUSSELL COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

RUSSELL COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2009

	Enterprise Fund
	Jail Commissary Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 2,187
Total Current Assets	<u>2,187</u>
Net Assets	
Unrestricted	2,187
Total Net Assets	<u><u>\$ 2,187</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

RUSSELL COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Enterprise Fund
	Jail Commissary Fund
Operating Revenues	
Sales	\$ 5,332
Commissions	563
Total Receipts	<u>5,895</u>
Operating Expenses	
Sales Tax	227
Purchases	4,797
Total Disbursements	<u>5,024</u>
Operating Income	<u>871</u>
Nonoperating Revenues (Expenses)	
Inmate Deposits	9,434
Inmate Fees Paid to Fiscal Court	(9,434)
Benefit and Recreation	(127)
Inmate Withdrawals	(749)
Total Nonoperating Expense	<u>(876)</u>
 Total Net Assets - July 1, 2008	 2,192
Total Net Assets - June 30, 2009	<u><u>\$ 2,187</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

RUSSELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	Enterprise Fund
	Jail Commissary Fund
Cash Flows From Operating Activities	
Commissary Sales	\$ 5,332
Commissions	563
Purchases	(4,797)
Sales Tax	(227)
Net Cash Provided By Operating Activities	<u>871</u>
Cash Flows From Noncapital Financing Activities	
Inmate Deposits	9,434
Inmate Fees Paid to Fiscal Court	(9,434)
Benefit and Recreation	(127)
Inmate Withdrawals	(749)
Net Cash Used By Fiduciary Activities	<u>(876)</u>
Net Decrease in Cash and Cash Equivalents	(5)
Cash and Cash Equivalents - July 1, 2008	<u>2,192</u>
Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 2,187</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$ 871</u>
Total Cash Used By Operating Activities	<u><u>\$ 871</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS**

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Sub-lease receivables are recognized on the Statement of Net Assets, but are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide service exclusively to the primary government, and the Fiscal Court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the County's primary government using the blending method.

Russell County Airport Board

On November 6, 1986, the Supreme Court of Kentucky ruled that the Russell County Airport Board (Airport Board) was not a legally formed entity under KRS 183.132, and therefore, was subordinate to Russell County Fiscal Court (Fiscal Court). Hence, the Fiscal Court is financially accountable for the Airport Board, legally entitled to the Airport Board's resources, as well as legally obligated for the Airport's debt. Financial information for the Airport Board is blended with Russell County's financial statements.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Russell County Public Properties Corporation

The Russell County Public Properties Corporation (Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management has included the Corporation as part of the reporting entity, and the activity has been blended with that of the Fiscal Court.

Discretely Presented Component Unit

The component unit's columns in the combined financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Russell County Tourist Commission

On December 2, 1981, the Russell County Fiscal Court established the Russell County Tourist Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting the recreation, tourist, and convention activity in Russell County. The Commission is composed of seven members appointed by the Russell County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties and two members are appointed at-large by the County Judge/Executive. The Commission, whose governing body is substantially different from the Fiscal Court, is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. Furthermore, on December 12, 1981, the Fiscal Court enacted an ordinance imposing a transient room tax, which is the Commission's major source of revenue. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room, or rooms charged and collected", which as required, is disbursed monthly to the Commission. This fiscal dependency requires the fiscal court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Therefore, management has included this entity as a component unit, and the entity's financial activity for the year ended December 31, 2008 is discretely presented in the financial statements. A complete copy of the audit report may be obtained from the Commission.

C. Russell County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Russell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Russell County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - The primary purpose of this fund is to account for the activities of the Public Properties Corporation (PPC), a blended component unit of the county. The PPC issued debt to build a justice center. The PPC entered into a contract, lease, and option with the County and Administrative Office of the Courts (AOC), Commonwealth of Kentucky. The Kentucky Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Alcohol Substance Abuse Program Fund, Tourism Fund, Drug Free Community Fund, and Airport Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Alcohol Substance Abuse Program Fund, Tourism Fund, Drug Free Community Fund, and Airport Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the County's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, educational and recreational activities and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Unit

The financial statements present the Russell County Tourist Commission as a major discretely presented component unit. It is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize that the organization exists separate from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-75
Buildings and Building Improvements	\$ 25,000	10-60
Machinery and Equipment	\$ 2,500	10-25
Vehicles	\$ 2,500	2-10
Infrastructure	\$ 20,000	10-60
Office Equipment	\$ 2,500	10-25

G. Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level. However, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund to comply with these requirements. A formal budget is not adopted for the Russell County Airport Board Fund. The Governor’s Office For Local Development does not require these funds to be budgeted.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

J. Related Organizations and Joint Venture

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of the Russell County Fiscal Court: Russell County Ambulance Service District and the Russell County Hospital.

A joint venture is a legal entity or other organization that results from a contractual agreement that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the 911 Dispatch consortium (Consortium) is considered a joint venture of Russell County Fiscal Court. The Consortium is composed of the Fiscal Court, the City of Jamestown, the City of Russell Springs, and the Russell County Emergency Medical Services District. Each member of the Consortium accepts “responsibility equally for any and all operating expenses and emergency needs approved by the management team, and agrees to pay for such costs in equal proportion of one-fourth each.”

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. Also, as of December 31, 2008 all deposits of the discretely presented component unit were covered by FDIC insurance or a properly executed collateral security agreement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 547,500			547,500
Construction in Progress (Restated)	699,473	959,089	(699,473)	959,089
Total Capital Assets Not Being Depreciated	1,246,973	959,089	(699,473)	1,506,589
Capital Assets, Being Depreciated:				
Buildings	2,398,899	722,351		3,121,250
Equipment	464,032	22,848		486,880
Vehicles	921,450	43,945	(19,950)	945,445
Infrastructure	4,041,124	102,721		4,143,845
Total Capital Assets Being Depreciated	7,825,505	891,865	(19,950)	8,697,420
Less Accumulated Depreciation For:				
Buildings	(1,147,037)	(101,913)		(1,248,950)
Equipment	(109,053)	(33,984)		(143,037)
Vehicles	(493,878)	(62,894)	15,960	(540,812)
Infrastructure	(449,700)	(183,426)		(633,126)
Total Accumulated Depreciation	(2,199,668)	(382,217)	15,960	(2,565,925)
Total Capital Assets, Being Depreciated, Net	5,625,837	509,648	(3,990)	6,131,495
Governmental Activities Capital Assets, Net	\$ 6,872,810	\$ 1,468,737	\$ (703,463)	\$ 7,638,084

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 138,387
Protection to Persons and Property	28,432
General Health and Sanitation	5,362
Roads, Including Depreciation of General Infrastructure Assets	210,036
Total Depreciation Expense - Governmental Activities	\$ 382,217

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended December 31, 2008 was as follows:

	Reporting Entity			
<u>Component Unit Activities:</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 30,240	\$	\$	\$ 30,240
Total Capital Assets Not Being Depreciated	30,240			30,240
Capital Assets, Being Depreciated:				
Buildings	217,847			217,847
Equipment	47,239			47,239
Total Capital Assets Being Depreciated	265,086			265,086
Less Accumulated Depreciation For:				
Buildings	(96,249)	(5,251)		(101,500)
Equipment	(46,216)	(1,023)		(47,239)
Total Accumulated Depreciation	(142,465)	(6,274)		(148,739)
Total Capital Assets, Being Depreciated, Net	122,621	(6,274)		116,347
Component Unit Activities Capital Assets, Net	\$ 152,861	\$ (6,274)	\$	\$ 146,587

Depreciation expense was charged to functions of the primary government as follows:

<u>Component Unit Activities:</u>	
Russell County Tourist Commission	<u>\$ (6,274)</u>
Total Depreciation Expense - Component Unit Activities	<u>\$ (6,274)</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt

A. Fire Truck

On April 26, 2001, Russell County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$75,000. The funds were used to purchase a fire truck. Principal and interest are paid monthly at 4.25% interest rate. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2010	8,601	508
2011	8,267	182
Totals	<u>\$ 16,868</u>	<u>\$ 690</u>

B. Sheriff Vehicles

On August 2, 2007, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$42,588. The funds were used to purchase Sheriff vehicles. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2010	2,588	155
Totals	<u>\$ 2,588</u>	<u>\$ 155</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. Sheriff Vehicles

On November 27, 2007, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$41,300. The funds were used to purchase Sheriff vehicles. Interest at a rate of 4.421% and principal is paid monthly. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2010	8,149	1,151
2011	8,400	871
2012	8,661	539
2013	3,689	124
Totals	<u>\$ 28,899</u>	<u>\$ 2,685</u>

D. Mac Truck

On August 27, 2007, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$98,900. The funds were used to purchase a Mac Truck. Interest at a rate of 4.55% is paid monthly. The agreement was paid in full during the year ended June 30, 2009.

E. Emergency Sirens

On June 2, 2008, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$180,000. The funds were used to purchase Emergency Sirens. Interest at a rate of 3.937% is paid monthly. Principal is due each January 20 until 2016. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2010	20,000	4,549
2011	20,000	4,213
2012	20,000	3,402
2013	25,000	2,500
2014	25,000	1,462
2015	15,000	538
Totals	<u>\$ 125,000</u>	<u>\$ 16,664</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

F. Fire Truck

On November 10, 2008, Russell County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$186,143. The funds were used to purchase a fire truck. Interest at a variable rate is paid monthly. Principal is due each January 20 until 2023. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2010	\$ 10,000	\$ 6,686
2011	11,000	6,857
2012	11,000	6,418
2013	11,000	5,961
2014	12,000	5,496
2015-2023	121,143	25,997
Totals	<u>\$ 176,143</u>	<u>\$ 57,415</u>

G. Public Properties Corporation Justice Center Bond Anticipation Notes

On March 25, 2008, the Russell County Public Properties Corporation issued First Mortgage Revenue Bond Anticipation notes in the amount of \$4,500,000 to fund the Russell County, Kentucky Justice Center project. Russell County Public Properties Corporation First Mortgage Revenue Bonds are to be issued for the purpose of redeeming the notes and pay project costs after the project has been publicly bid and costs determined. Simultaneously with the issuance of the bonds, the County will enter into a lease agreement with the Administrative Office of The Courts for rental payments sufficient to pay 100% of the debt service cost of the bonds. Interest on the notes of 2.62% is paid September 1 and March 1. Principal payment is due March 1, 2010. Future principal and interest requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2010	4,500,000	117,900
Totals	<u>\$ 4,500,000</u>	<u>\$ 117,900</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

H. Notes Payable - Component Unit

Note Payable – Bank of Jamestown

The Russell County Tourist Commission has a note payable to the Bank of Jamestown, payable in monthly installments of \$793, including interest at 6%, through August 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2007 of \$31,891 which was paid off during the year ended December 31, 2008.

Note Payable – First National Bank

The Russell County Tourist Commission had a note payable to the Bank of Jamestown, payable in monthly installments of \$793, including interest at 6%, through August 2011. The note, collateralized by commercial real estate, had a principal balance outstanding at December 31, 2007 of \$31,891 which was paid off during the year ended December 31, 2008.

I. Changes In Long-term Liabilities

Long-term liability activity of the primary government for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Bond Anticipation Notes	\$ 4,500,000	\$	\$	4,500,000	\$ 4,500,000
Financing Obligations	<u>353,349</u>	<u>186,143</u>	<u>189,994</u>	<u>349,498</u>	<u>49,338</u>
Governmental Activities Long-term Liabilities	<u>\$ 4,853,349</u>	<u>\$ 186,143</u>	<u>\$ 189,994</u>	<u>\$ 4,849,498</u>	<u>\$ 4,549,338</u>

Long-term liability activity of the discretely presented component unit for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Component unit:				
<u>Governmental Activities:</u>				
Notes Payable	\$ 63,782		\$ 63,782	
Governmental Activities Long-term Liabilities	<u>\$ 63,782</u>	<u>\$</u>	<u>\$ 63,782</u>	<u>\$</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

The county's contribution for FY 2007 was \$117,397, FY 2008 was \$206,584, and FY 2009 was \$192,355.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

Russell County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

The Kentucky Public Employees' Deferred Compensation Authority's annual financial report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2009, Russell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Beginning Balance Restated

Beginning balance for capital assets Construction in Progress was restated by \$699,473 to account for prior period adjustments in the capital asset listing.

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,142,000	\$ 1,142,000	\$ 1,250,477	\$ 108,477
In Lieu Tax Payments	95,000	95,000	202,930	107,930
Excess Fees	111,525	111,525	227,933	116,408
Licenses and Permits	-	-	4,416	4,416
Intergovernmental	597,017	597,017	202,023	(394,994)
Miscellaneous	157,790	172,164	174,770	2,606
Interest	1,800	1,800	1,737	(63)
Total Revenues	2,105,132	2,119,506	2,064,286	(55,220)
EXPENDITURES				
General Government	629,150	652,533	623,805	28,728
Protection to Persons and Property	82,545	90,224	82,052	8,172
General Health and Sanitation	261,993	292,172	210,635	81,537
Social Services	1,500	1,500		1,500
Recreation and Culture	18,000	14,565	14,276	289
Debt Service	110,000	124,374	98,240	26,134
Capital Projects	110,000	279,063	250,006	29,057
Administration	469,563	412,146	357,748	54,398
Total Expenditures	1,682,751	1,866,577	1,636,762	229,815
Excess of Revenues Over Expenditures Before Other Financing Uses	422,381	252,929	427,524	174,595
OTHER FINANCING SOURCES (USES)				
Financing Obligations Issued	-	186,143	186,143	-
Transfers From Other Funds	37,183	37,183	-	(37,183)
Transfers To Other Funds	(559,564)	(559,564)	(606,992)	(47,428)
Total Other Financing Sources	(522,381)	(336,238)	(420,849)	(84,611)
Net Changes in Fund Balance	(100,000)	(83,309)	6,675	89,984
Fund Balance - Beginning	100,000	100,000	424,518	324,518
Fund Balance - Ending	\$	\$ 16,691	\$ 431,193	\$ 414,502

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 934,745	\$ 934,745	\$ 1,015,387	\$ 80,642
Charge for Services	500	500	105	(395)
Miscellaneous	6,000	6,000	4,501	(1,499)
Interest	2,900	2,900	3,939	1,039
Total Revenues	944,145	944,145	1,023,932	79,787
EXPENDITURES				
Roads	767,758	698,970	544,206	154,764
Debt Service		99,553	99,553	-
Administration	159,204	128,439	105,171	23,268
Total Expenditures	926,962	926,962	748,930	178,032
Excess of Revenues Over Expenditures Before Other Financing Uses	17,183	17,183	275,002	257,819
OTHER FINANCING SOURCES				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(37,183)	(37,183)		37,183
Total Other Financing Sources	(37,183)	(37,183)	100,000	137,183
Net Changes in Fund Balance	(20,000)	(20,000)	375,002	395,002
Fund Balance - Beginning	20,000	20,000	132,038	112,038
Fund Balance - Ending	\$	\$	\$ 507,040	\$ 507,040

RUSSELL COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,700	\$ 100,700	\$ 109,156	\$ 8,456
Charges for Services	1,800	1,800	2,219	419
Miscellaneous	2,700	2,700	5,577	2,877
Interest	400	400	98	(302)
Total Revenues	<u>105,600</u>	<u>105,600</u>	<u>117,050</u>	<u>11,450</u>
EXPENDITURES				
Protection to Persons and Property	563,864	573,978	528,569	45,409
Administration	101,300	97,325	72,377	24,948
Total Expenditures	<u>665,164</u>	<u>671,303</u>	<u>600,946</u>	<u>70,357</u>
Deficiency of Revenues Over Expenditures Before Other Financing Uses	<u>(559,564)</u>	<u>(565,703)</u>	<u>(483,896)</u>	<u>81,807</u>
OTHER FINANCING SOURCES				
Transfers From Other Funds	<u>559,564</u>	<u>559,564</u>	<u>500,000</u>	<u>(59,564)</u>
Total Other Financing Sources	<u>559,564</u>	<u>559,564</u>	<u>500,000</u>	<u>(59,564)</u>
Net Changes in Fund Balance		(6,139)	16,104	22,243
Fund Balance - Beginning (Restated)			(2,974)	(2,974)
Fund Balance - Ending	<u>\$</u>	<u>\$ (6,139)</u>	<u>\$ 13,130</u>	<u>\$ 19,269</u>

**RUSSELL COUNTY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2009

1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the Public Properties Corporation Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**RUSSELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

RUSSELL COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Local Government Economic Assistance Fund	Alcohol Substance Abuse Program Fund	Tourism Fund	Drug Free Community Fund
ASSETS				
Cash and Cash Equivalents	\$ 7,935	\$ 22,468	\$ 11,532	\$ 120
Total Assets	<u>\$ 7,935</u>	<u>\$ 22,468</u>	<u>\$ 11,532</u>	<u>\$ 120</u>
FUND BALANCES				
Unreserved:				
Special Revenue Funds	\$ 7,935	\$ 22,468	\$ 11,532	\$ 120
Total Fund Balances	<u>\$ 7,935</u>	<u>\$ 22,468</u>	<u>\$ 11,532</u>	<u>\$ 120</u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
 COMBINING BALANCE SHEET –
 NON-MAJOR GOVENMENTAL FUNDS – MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2009
 (Continued)

Airport Fund	Total Non-Major Governmental Funds
<u>\$ 40,474</u>	<u>\$ 82,529</u>
<u><u>\$ 40,474</u></u>	<u><u>\$ 82,529</u></u>
<u>\$ 40,474</u>	<u>\$ 82,529</u>
<u><u>\$ 40,474</u></u>	<u><u>\$ 82,529</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

RUSSELL COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Local Government Economic Assistance Fund	Alcohol Substance Abuse Program Fund	Tourism Fund	Drug Free Community Fund
REVENUES				
Taxes	\$	\$	\$ 101,346	\$
Intergovernmental	7,716	44,111		109,911
Charge for Services				
Miscellaneous		21,100		
Interest	20		49	
Total Revenues	<u>7,736</u>	<u>65,211</u>	<u>101,395</u>	<u>109,911</u>
EXPENDITURES				
General Government	5,621			
Protection to Persons and Property				
General Health and Sanitation				
Social Services		49,038		109,815
Recreation and Culture			99,941	
Roads				
Airports	5,000			
Debt Service				
Capital Projects				
Administration				
Total Expenditures	<u>10,621</u>	<u>49,038</u>	<u>99,941</u>	<u>109,815</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,885)</u>	<u>16,173</u>	<u>1,454</u>	<u>96</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	6,992			
Total Other Financing Sources (Uses)	<u>6,992</u>			
Net Change in Fund Balances	4,107	16,173	1,454	96
Fund Balances - Beginning	<u>3,828</u>	<u>6,295</u>	<u>10,078</u>	<u>24</u>
Fund Balances - Ending	<u><u>\$ 7,935</u></u>	<u><u>\$ 22,468</u></u>	<u><u>\$ 11,532</u></u>	<u><u>\$ 120</u></u>

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
 Other Supplementary Information
 June 30, 2009
 (Continued)

Airport Fund	Total Non-Major Governmental Funds
\$	\$ 101,346
47,361	209,099
28,030	28,030
	21,100
470	539
<u>75,861</u>	<u>360,114</u>
	5,621
	158,853
	99,941
37,641	42,641
22,878	22,878
<u>60,519</u>	<u>329,934</u>
<u>15,342</u>	<u>30,180</u>
	6,992
	<u>6,992</u>
15,342	37,172
<u>25,132</u>	<u>45,357</u>
<u>\$ 40,474</u>	<u>\$ 82,529</u>

The accompanying notes are an integral part of the financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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Certified Public Accountants

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www.rosscpas.com

The Honorable Mickey Garner, Russell County Judge/Executive
Members of the Russell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Russell County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 18, 2010 wherein we made reference to the report of other auditors. Russell County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Other auditors audited the financial statements of the Russell County Tourist Commission, as described in our report on Russell County's financial statements. This report does not include the results of the other auditor's testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Russell County Fiscal Court's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Russell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC
Certified Public Accountants

March 18, 2010

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

RUSSELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2009